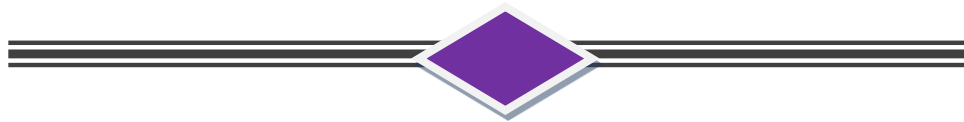
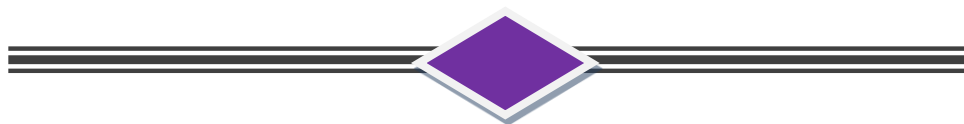


KANSAS STATE EMPLOYEES HEALTH CARE COMMISSION



ANNUAL REPORT



PLAN YEAR
2014

**Kansas State Employees Health Care Commission
2014 Annual Report**

Table of Contents

EXECUTIVE SUMMARY	1
BACKGROUND	2
I. SUMMARY OF CHANGES AND OTHER ACTIVITIES IN PLAN YEAR 2014	3
Health Plan Administration	3
Health Plan Design	3
Re-Contracting for Health Plan Vendors and Services	6
II. SUMMARY OF CHANGES FOR PLAN YEAR 2015	7
Health Plan Design	7
Open Enrollment for Plan Year 2015	7
Non State Public Employers.....	8
III. PROGRAM HIGHLIGHT: SEHP HEALTHQUEST PROGRAM.....	9
Program Highlights.....	9
IV. FINANCING	10
Beginning Balance	10
Plan Revenues.....	10
Plan Expenses	10
Administration	10
Plan Reserves.....	11
Summary.....	11
Table 1: Reserve Calculation	12
Table 2: Plan History FY 2005 to FY 2014.....	13
Figure 2: History of State Employee Health Plan	14
Figure 3: Projected Reserve Balance.....	15
EXHIBITS	16
A. Employee Advisory Committee Members.....	16
B. 2014 Group Health Insurance Enrollment by Type of Participant.....	19
C. 2014 Non State Entities Enrollment.....	21
D. 2014 Comparison of Actual to Projected Health Plan Costs (Unaudited).....	22

EXECUTIVE SUMMARY

- Based upon staff projections and the opinion of the State Employee Health Plan (SEHP) actuaries, the SEHP fund should have sufficient funds to pay the health care expenses for a self-funded plan covering approximately 100,000 lives for 2015.
- Active employee open enrollment was held from October 1 through October 31, 2014. This was the first year for the new Membership Administrative Portal (MAP) system to be used for state employee web enrollment. Approximately 34,471 employees utilized the online Open Enrollment system for State employees to review their health plan coverage. One hundred and six (106) Open Enrollment meetings were held for employees in thirty-five (35) cities and ten (10) online Open Enrollment webinars were held. Staff estimates that approximately 7,500 employees attended these meetings.
- This is the first year staff held online webinars for Non State employees during open enrollment. Three (3) webinars were held and were attend by one hundred thirty two (132) non state employees.
- Beginning in September 2014, the active state employee population was moved to the new MAP enrollment system. The Non State and Direct Bill members have been using the MAP system for several years. The MAP system eliminated the need for paper enrollment and change forms for employees and improved the efficiency of the enrollment process. The system also offers a limited employee self-service center where employees can update their personal information and request changes in their coverage elections. Human resource officers have enhanced resources for viewing, tracking, reporting and updating employee records. Beginning in PY 2015, the enrollment and membership portal will be enhanced to incorporate a billing module that will eliminate the need for the SEHP to contract for a separate third-party billing service.
- The Health Care Commission (HCC) voted to add coverage to the SEHP for bariatric surgery beginning with PY 2014.
- To earn the HealthQuest (HQ) Rewards Program premium incentive discount employees needed to complete a health assessment for 10 credits and earn 10 additional credits by participating in the wellness program by July 31, 2013, in order to qualify for the HQ Rewards premium incentive discount for PY 2014. To earn the discount for PY 2015, employees needed to complete the health assessment questionnaire worth 10 credits and earn an additional 20 credits by participating in health and wellness activities. Over 70 percent of eligible state and non state employees covered under the SEHP earned the discount for PY 2015.
- Beginning with Plan Year (PY) 2015 employees may roll up to \$500 of the health care flexible spending account or limited flexible spending account funds into the next plan year and use them anytime during that year. This change is a result of recent changes in the I.R.S rules that govern flexible spending accounts and was approved by the HCC to replace the current grace period.

BACKGROUND

The Kansas State Employees Health Care Commission (HCC) was created by the 1984 Legislature through the enactment of K.S.A. 75-6501 et seq. to “develop and provide for the implementation and administration of a state health care benefits program. . . . [It] may provide benefits for persons qualified to participate in the program for hospitalization, medical services, surgical services, nonmedical remedial care and treatment rendered in accordance with a religious method of healing and other health services.” Under K.S.A. 75-6504(b), the HCC is authorized to “negotiate and enter into contracts with qualified insurers, health maintenance organizations and other contracting parties for the purpose of establishing the state health care benefits program.”

The HCC is composed of five (5) members and met six (6) times during 2014. The Secretary of Administration and the Commissioner of Insurance serve as members of the HCC as mandated by statute, while the Governor appoints the other three members. K.S.A. 75-6502 requires one member to be a representative of the general public, one member to be a current state employee in the classified service, and one member to be a retired state employee from the classified service. The active employee from classified service position was vacant for part of 2014 before Heather Young was appointed in August 2014. The 2014 HCC members were:

Jim Clark, Chair and Secretary of Administration

J. Scott Day, representative from the general public

Steve Dechant, retired employee from the classified service

Sandy Praeger, Commissioner of Insurance

Heather Young active employee from the classified service (beginning August 2014)

An Employee Advisory Committee (EAC) assists the HCC. It is composed of 21 members, 18 of whom are active employees and 3 who participate through Direct Bill. Members are selected on the basis of geographic location, agency, gender, age, and plan participation in order to ensure a balanced membership representing a broad range of employee and Direct Bill member interests. Each member serves a three (3) year term. (See Exhibit A.) The EAC met three (3) times during 2014.

Effective July 1, 2011, the staff that administer the State Employee Health Plan (SEHP) became part of the Division of Health Care Finance within the Kansas Department of Health and Environment (KDHE). The Director of the State Employee Health Benefits Program (SEHBP) reports to the Director of the Division of Health Care Finance. The SEHP is responsible for bringing recommendations to the HCC and with carrying out the operation of the SEHP according to HCC policy. SEHP staff prepared this report. Aon Consulting provides the actuarial and consulting services for the health plan.

I. SUMMARY OF CHANGES AND OTHER ACTIVITIES IN PLAN YEAR 2014

This section provides a summary of improvements, changes, and other activities in the State Employee Health Plan (SEHP) that occurred or took effect in Plan Year (PY) 2014 (i.e., calendar year 2014). The summary includes a record of the HCC's contracting activities during the year and an overview of the enrollment trends during 2014. As a package, there were minimal changes in the benefits offered in 2014 with specific changes highlighted below. Enhancements to the HealthQuest program are highlighted separately in Section III of this report. The impact of these plan changes on SEHP finances in 2014 and in future years is summarized in Section IV.

HEALTH PLAN ADMINISTRATION

Beginning with Plan Year (PY) 2008, the SEHP self-insures all of the active employee medical products. PY 2014 represents the seventh full plan year of self-funding all the health plans. This was the third year of the HCC's three-year contract with each vendor for administrative services. The following vendors provided administrative and network services for the SEHP in 2014:

- Blue Cross and Blue Shield of Kansas (Plan A, Plan B and Plan C)
- Coventry Healthcare of Kansas (Plan A, Plan B and Plan C)
- UnitedHealthcare Company (Plan A, Plan B and Plan C)

The SEHP expanded the use of the Membership Administrative Portal (MAP) for enrollment and membership to State employees during 2014. Non State groups and Direct Bill members enrolled in the SEHP have been using the MAP system for several years. Since 2013, initial enrollment of new Non State groups joining the SEHP has been done online in MAP, thus eliminating the need for paper enrollment forms from this population. The new portal provides human resource officers enhanced resources for viewing, tracking, reporting and updating employee records. Both Active employees and Direct Bill members utilized the web portal for making their annual open enrollment selections. The new system is designed to improve the efficiency of the enrollment process.

HEALTH PLAN DESIGN

The SEHP offered members a choice of three (3) health plan designs available from three (3) vendors. All plans reflected value-based plan designs which emphasize the use of preventive care. Changes made to the SEHP for 2014 centered on modifying the benefits to meet the HCC's benefit objectives and to ensure compliance with State and Federal laws. The changes included the following:

- For Plans A and B only:
 - Coverage for facility charges for urgent care visits was simplified to a \$50 copay.
 - The medical plan out of pocket maximum was modified to include the member deductible, coinsurance and any member copays.
 - The coinsurance maximum on the prescription drug plan for an individual increased to \$2,750 and a new family coinsurance maximum of \$5,500 was added.
- For Plans A, B and C:
 - Coverage for autism spectrum disorder was made a permanent benefit under the plan.
 - Coverage for bariatric services for patients that qualified was added.
 - The annual dollar limit on durable medical equipment was removed.
 - Well Women Preventive care was enhanced.
 - Preventive colonoscopy coverage was enhanced to cover polyp removal.
 - The prescription drug plan coinsurance maximum was changed to include member costs for non preferred drugs as well as generic and preferred drug coinsurance and copays.

Complete plan design and benefit information, as well as the health plan comparison chart are located on the web at: <http://www.kdheks.gov/hcf/sehp/PY2014Info.htm>

The following are the enrollment numbers as of January 2014 for State and Non State active employees:

Vendor	Plan A	Plan B	Plan C
Blue Cross and Blue Shield of Kansas	29,446	2,310	7,053
Coventry Health Care of Kansas	1,442	169	402
UnitedHealthcare	459	116	231
Total	31,347	2,595	7,686

Waived Coverage	
State Employees	2,152
Non State Employees	1,242
Total	3,394

Dental Coverage

No changes were made in the value-based dental plan design that encourages members to use preventive care services. This plan design has resulted in the plan experiencing a positive trend of increased usage of preventive office visits and cleanings. Members who have their routine exams and cleanings are rewarded with less out-of-pocket cost if they need basic restorative services.

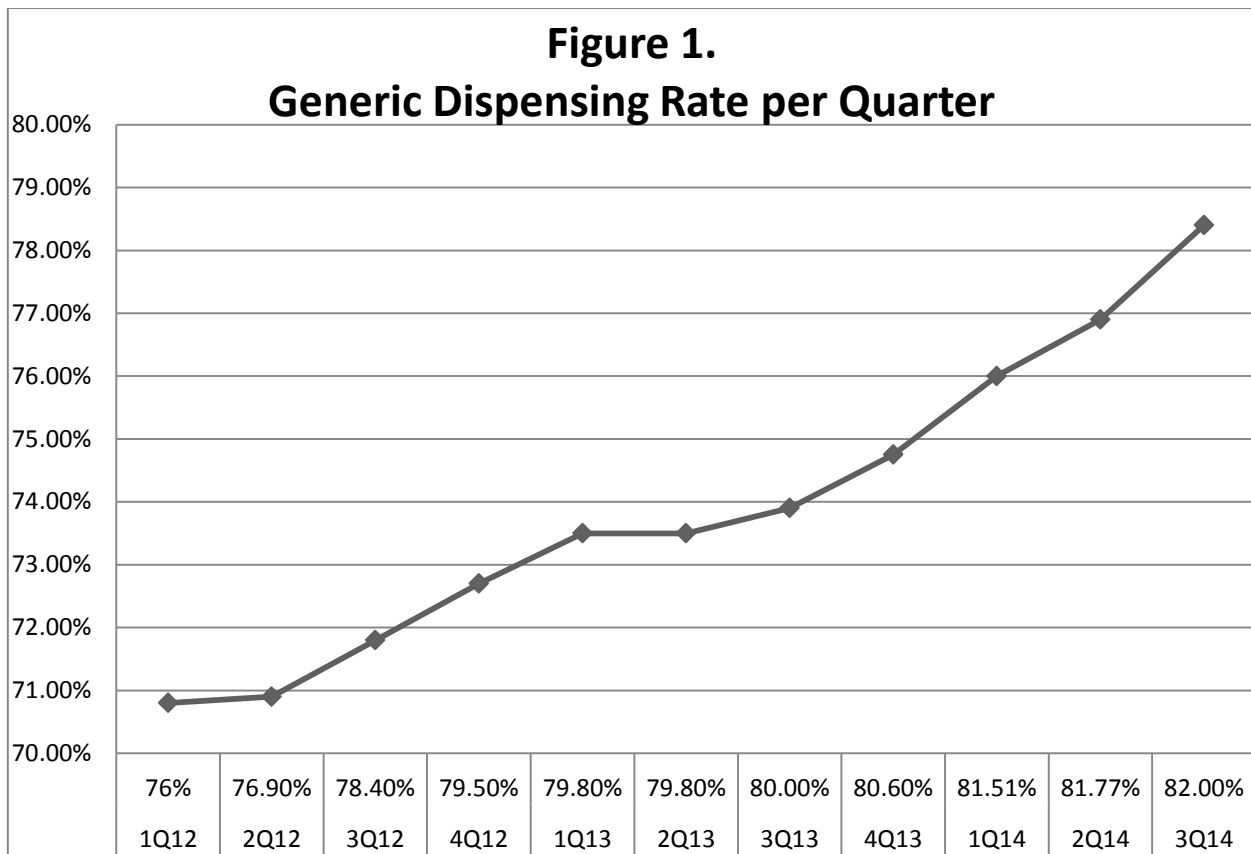
Preferred Lab Services

Members on Plans A and B have the option of using a preferred lab vendor for covered lab services. The SEHP has negotiated discounts with these preferred labs and, as a result, covered charges are paid at 100 percent by the plan. Beginning in 2012, two (2) preferred lab vendors are available to members. Quest Labs continues to be the statewide and nationwide preferred lab vendor. Stormont-Vail Labs is the regional preferred lab vendor. The preferred lab benefit is optional and members have coverage for lab services provided by other lab providers; however, those services are subject to the plan deductible and coinsurance.

Beginning April 1, 2014, a preferred lab benefit was added to Plan C. The benefit works differently on Plan C due to federal guidelines that govern high deductible health plans (HDHP) like Plan C. For Plan C, members that use either of the preferred lab vendors for covered lab work will receive a discount on the price of the lab services. This benefits the member in the deductible phase and the SEHP once the deductible has been satisfied.

Prescription Drug Coverage

The HCC continued its multi-tiered coinsurance plan design for the standard prescription drug plan used for Plans A and B. The standard plan encourages and rewards cost-effective consumer purchasing through a coinsurance plan design. Through proactive plan management, increased consumer awareness, and the introduction of several new generic products, the generic dispensing rate increased from 76 percent in the first quarter of 2012 to 82 percent for the third quarter of 2014 (see Figure 1).



Medicare Plans

Direct Bill members with Medicare had the option of a fully insured Medicare Part C Advantage Plan, or the Blue Cross and Blue Shield Medicare Supplement Plan C insured product, Kansas Senior Plan C. Senior Plan C is available with or without the fully insured First Health Medicare Part D prescription drug plan.

Premium billing for the Non State and Direct Bill members is done through a jointly administered contract with Medicaid for third-party billing services. Premium billing for the Medicare Part D Prescription Drug plan was done by First Health directly.

Long Term Care Insurance

The SEHP offers a Voluntary Group Long Term Care Insurance Program through Genworth Life Insurance Company. The program is offered to State of Kansas benefits eligible active employees, retired employees, and their family members. The long term care insurance is entirely employee-paid coverage and is not available through payroll deduction.

Section 125 Plan

The SEHP implemented a Section 125 Pre-Tax Premium Option in July 1986. Employees have the option to have their health care premiums deducted from their paycheck using a pre-tax option. This pre-tax deduction reduces the employee's taxable income and reduces the amount of FICA tax owed by the State. Over 97 percent of active employees with group health insurance participate in this option.

The SEHP established Health Care Flexible Spending Accounts (HCFSA) and Dependent Care Flexible Spending Accounts (DCFSA) effective February 1, 1991. In 2011, a limited purpose Flexible Spending Account (FSA) program was added for employees enrolled in Plan C. As Plan C has a Health Savings Account (HSA), the limited purpose FSA provides members the ability to set aside money on a pre-tax basis for eligible anticipated out-of-pocket expenses for dental and vision claims. Beginning in January 2014, the administration of the flexible spending accounts was taken over by NueSynergy located in Leawood, KS.

Transparency Tools

The SEHP has contracts with two vendors for transparency tools to assist employees in understanding their health, health care costs and quality.

- **Rx Savings Solutions** launched their SEHP pharmacy transparency tool in June 2014. Members who sign up are notified of savings opportunities in their prescription drug usage. Rx Savings provides the member with the relevant information so that they can discuss the prescription drug options with their physician. Members have the option of receiving text alerts or phone calls from Rx Savings and have the option of discussing their prescription drugs with a pharmacist or pharmacy technician.
- **Castlight Health** is an online tool that makes it easy to shop for medical care and compare all of the network provider options, so the member knows what options are available, quality ratings of the providers and the price. Castlight is completely customized for the member, so any search conducted takes into account the health plan the member is enrolled in, and the pricing reflects the member's health plan's allowed charges for that service and the member's deductible and out of pocket costs. Members also have access to quality information about the doctors and facilities based on quality data from the Centers for Medicare and Medicaid Services (CMS), Leapfrog and other organizations that provide health care quality ratings.

RE-CONTRACTING FOR HEALTH PLAN VENDORS AND SERVICES

The following Requests for Proposals were released during 2014:

Request for Proposal EVT0002906 to provide medical administrative services only was released January 22, 2014, and closed on March 7, 2014. Three (3) bids were received and all three (3) bidders, Aetna, Blue Cross and Blue Shield of Kansas (BCBS), and UnitedHealthcare (UHC), were invited in for negotiations. Aetna has purchased current vendor Coventry Health Care of Kansas. The HCC elected to issue three-year contracts to Aetna and BCBS.

Request for Proposal EVT0002988 for preferred outpatient laboratory services was released March 3, 2014 and closed on May 15, 2014. Two bids were received from the incumbent vendors Quest Diagnostics and Stormont-Vail HealthCare Inc. Quest bid to continue to offer a statewide and nationwide Lab Card network. Stormont-Vail HealthCare Inc. is offering a regional lab benefit at designated locations in the following counties: Coffey, Douglas, Jefferson, Lyon, Osage, Pottawatomie, Shawnee and Wabaunsee counties. Negotiations were held with both vendors. The HCC elected to issue three-year contracts to both Quest Diagnostics and Stormont-Vail HealthCare, Inc.

Request for Proposal EVT0003202 for a firm to provide ongoing auditing services for the SEHP was released on May 27, 2014, and closed on June 27, 2014. Auditing services requested would include a claims audit of the self-funded medical, pharmacy and dental programs as well as a pharmacy rebate audit, and a focused dependent eligibility audit. Three proposals were submitted by Aon Consulting, CTI and J. Graham. All three bidders were invited in for negotiations. The HCC elected to issue a three-year contract to Aon Consulting.

II. SUMMARY OF CHANGES FOR PLAN YEAR 2015

This section includes a summary of health plan improvements developed and approved in 2014 for implementation in Plan Year (PY) 2015, which began January 1, 2015.

HEALTH PLAN DESIGN

For PY 2014, most of the plan design changes were done to address changes in the legal requirements that govern health plans. The HCC approved the elimination of Plan B for PY 2015 due to declining enrollment. Beginning with PY 2015, the HCC approved eliminating the salary tiers for determining member premium cost. The HCC voted in 2014 to contract with only two health plan administrators so Plans A and C were available from either Aetna or BCBS of Kansas. Complete plan design and benefit information, as well as the health plan comparison chart, are located on the web at: <http://www.kdheks.gov/hcf/sehp/default.htm>

- **Plan A –**
 - An Out of Pocket (OOP) Maximum, which is the member's annual maximum out of pocket financial responsibility for covered services, was modified to include the member's out of pocket for pharmacy. The member's deductible, coinsurance and copays for medical and covered prescription drugs all accumulate toward meeting one OOP maximum instead of two separate OOP maximums. The amount of the OOP was increased to reflect this combination.
- **Plan C –**
 - The member and family deductibles on Plan C were increased as a result of I.R.S. requirements for high deductible health plans with Health Savings Accounts (HSAs).
 - For members enrolled in Plan C that do not qualify for the HSA due to federal requirements, a health reimbursement account is now offered instead.
- **Changes to Both Plans:**
 - Coverage of durable medical equipment was modified to allow for coverage of electric wheelchairs when medically necessary.
 - Coverage of prosthetics was modified to allow for coverage of prosthetics that contain electronic components when medically necessary.
 - Coverage for autism spectrum disorder was modified to comply with H.B. 2744.
 - The preventive care benefits were updated to meet federal requirements.

OPEN ENROLLMENT FOR PLAN YEAR 2015

Active employee Open Enrollment was held from October 1 through October 31. One hundred six (106) Open Enrollment meetings were held for employees in thirty-five (35) cities, and ten (10) online Open Enrollment webinars were held. Staff estimates that approximately 7,500 employees attended these meetings.

Approximately 34,500 employees utilized the online Open Enrollment system for State employees to review their health plan coverage. Of those logging into the Open Enrollment system, 34,180 reviewed and saved their health plan elections for Plan Year (PY) 2015. Non State Groups also enrolled online and 5,811 Non State employees made health care elections.

Final enrollment numbers are not available at this time but, as of December 1, 2014, the State and Non State active employee enrollment was as follows:

Vendor	Plan A	Plan C	Waived
Blue Cross and Blue Shield of Kansas	26,573	12,466	
Aetna	1,069	546	

Waived Coverage			3,279
Total	27,642	13,012	3,279

Waived Coverage	
State Employees	2,767
Non State Employees	512
Total	3,279

Flexible Spending Accounts (FSAs) require an annual election to participate, and 4,985 State employees elected the traditional medical FSA, 772 Plan C members elected the limited purpose FSA, and 1,250 elected a dependent care FSA. Beginning with PY 2015, employees with funds in their health care or limited purpose FSA account at the end of the year can roll up to \$500 in unused funds into the next plan year and use them anytime during the year for eligible health care expenses. This change is a result of recent changes in the I.R.S. rules that govern flexible spending accounts and was approved by the HCC to replace the current grace period.

Enrollment in the voluntary vision plan through Superior Vision for Active and Non State Members:

<u>Coverage Level</u>	<u>Enrolled</u>
Basic Plan	7,483
Enhanced Plan	19,158
Total Enrolled	26,641

Direct Bill

The Direct Bill open enrollment for retirees began November 1 and runs through November 30. Enrollment numbers for the Direct Bill program are not available at this time. The Direct Bill call center staff conducted twenty-five (25) Direct Bill open enrollment meetings at twelve (12) locations throughout the state.

NON STATE PUBLIC EMPLOYERS

K.S.A. 75-6506(c) authorizes the Kansas State Employees Health Care Commission to designate by rules and regulations the inclusion of public schools and certain local governmental entities into the SEHP. The following chart shows the enrollment by type of eligible group as of January 1, 2015:

Summary	Number of Groups	Covered Employees
Public Schools	32	2,781
Cities	49	451
Counties	27	2,298
Townships	3	18
Public Hospitals & Community Mental Health Centers	17	1,144
Misc. Local Governmental Entities	44	202
Total	172	6,894

III. PROGRAM HIGHLIGHT: SEHP HEALTHQUEST PROGRAM

PROGRAM HIGHLIGHTS

The SEHP's HealthQuest (HQ) program goal continues to be improving the health of members and decreasing overall health costs. The HealthQuest wellness program offers members access to a 24-hour-a-day nurse line for members to ask questions about their health. Health coaches and condition management programs are available to provide information and support to help members manage and improve their health. In addition, free biometric health screenings are offered throughout the state. The screenings provide employees with basic biometric information about their health. Employees whose values are outside the normal range are referred to their personal physician for follow-up care. The biometric values can also be used to complete the health assessment questionnaire which provides additional information and feedback to the employee about their health and ways to improve it. At-home test kits are also available to obtain the biometric information for members who are unable to attend a health screening event. Members may participate in a variety of wellness challenges and activities throughout the year. A wellness portal is available at: www.kansashealthquest.com.

Beginning with PY 2013, the HQ program has offered the HQ Rewards premium incentive discount program. The rewards program includes a health assessment questionnaire and encompasses a wide variety of health awareness and improvement programs. The goal of the program is to engage employees in a discussion about their health and wellness. Improving the health of the plan members reduces the number and severity of claims and saves the plan and employees money in the long run. Participation in the new HQ Rewards Program is optional. Employees who elect not to participate in the HQ Rewards Program are still eligible for coverage under the SEHP and pay the full employee premium rate. Complete program details are available at: <http://www.kdheks.gov/hcf/healthquest/rewards.html>

The qualification period to earn the HQ Rewards premium incentive discount for PY 2015 was August 1, 2013, through November 15, 2014. The plan year was adjusted so that the end of the program occurred after Open Enrollment. Employees were able to see in the new Open Enrollment portal whether or not they had the discount for 2015. If they did not, they still had time to complete the program requirements. To earn the incentive discount, employees had to complete the online or paper health assessment questionnaire worth 10 credits and earn an additional 20 credits by participating in other programs. Employees could select from a wide variety of activities to earn additional credits. Those who completed the online health assessment and earned twenty (20) additional credits by November 15, 2014, earned the HQ Rewards premium incentive discount of \$40 per month toward their PY 2015 premium.

For PY 2015, over 70 percent of State and Non State employees participated in the HQ Rewards Program and earned the premium incentive discount. Aon Consulting did an analysis of the HealthQuest program's impact on trend. Analysis indicates that the wellness participants' actual costs were 3% lower than non-participants after risk adjustment. This suggests Kansas saved approximately \$3.2 million in medical costs with the program. This translates roughly to a 0.9% trend reduction.

The fourth year of the HQ Rewards Program began on November 16, 2014, and runs through November 15, 2015. To earn the HQ reward for Plan Year 2016, employees will need to complete the health assessment questionnaire for 10 credits and earn 20 additional credits by November 15, 2015. Credits are tracked on the wellness portal at www.KansasHealthQuest.com.

IV. FINANCING

In 2014, the HCC continued to receive periodic financial reports summarizing plan revenues, expenditures, and both current and projected balances in SEHP funds. This section summarizes the financial status of the SEHP, including a discussion of funding balances, revenue, and expenses.

BEGINNING BALANCE

The beginning balances shown at the top of **Table 1** and **Table 2** indicate the total amounts of cash in the various funds available to the SEHP. Table 1 is the SEHP ten (10) year projection sheet that is reviewed and approved on an annual basis by the HCC. Funds available to the SEHP are referred to as the “**Reserves**,” and the beginning balance of the Plan Reserve represents the funds available at the beginning of each year.

Available monies for plan expenses were managed in two funds. One fund was a dedicated, interest-bearing reserve that totals approximately \$12.0 million called “**Reserve Fund**,” on **Table 2** and “**Beginning Reserve Earning Interest**” on **Table 1**. This fund was created by the 1993 contract with Blue Cross and Blue Shield of Kansas to provide a reserve for self-funded claims payments. The fund has continued to exist and grows by interest compounded monthly within the Pooled Money Investment Board. Since PY 2009, the fund has experienced decreasing interest rates.

The second fund, called “**Remittance to Providers**,” on **Table 2** and called “**Beginning Reserve not Earning Interest**” on **Table 1**, represents monies remaining from payroll collections (employees and state agencies), Direct Bill contributions from retirees, COBRA continuers, and Non State public employer contributions after all expenses have been paid. An audit finding of the U.S. Department of Health and Human Services resulted in an order that the State of Kansas pay the federal government for interest income on these SEHP funds that was allocated to the State’s general fund. As a result, the funds were combined into the “**Reserve Earning Interest**” in 2014 and this fund was dissolved. The second installment payment to Health and Human Services as a result of this finding of \$3,032,232.54 was made from the SEHP fund balance in 2014. Based on past experience, it is estimated that the interest earned on the Reserve Fund will be one (1) percent over the long-term even though the FY 2014 rate is less than 1 percent.

PLAN REVENUES

Plan revenues are the sums received from contributions by State agencies, Non State public employers, employees, and retirees, plus interest earned by the plan. Past experience with fund balances, revenues, and expenses are represented in a historical chart (**Figure 2**) based upon fiscal years running from July 1 to June 30. Projected balances, revenues, and expenses are based upon plan years running from January 1 to December 31.

The “**Total Contributions**” figure on **Table 1** for PY 2014 is based upon the contributions made by agencies, Non State public employers and employee contributions. The agency and Non State public employer contributions are adjusted on the first of July each year. The employee contributions are adjusted January 1 of each year. The projections shown in **Table 1** incorporate the estimated impacts of contribution rates in effect for PY 2014, as described above.

PLAN EXPENSES

Plan expenses are payments for medical, dental, and drug claims, plus related contract administration fees that are paid by the plan. The historical plan expenses (**Table 2**) represent actual experience, whereas projected plan expenses (**Table 1**) are estimates reflecting a long-term managed health care cost trend. The total annualized cost of the SEHP for PY 2014 is estimated to be approximately \$482,254,000 per Exhibit D. Past experience and future projections for the plan contributions, expenses, ending reserve balances and target reserve are represented in the Projected Reserve Balance (**Figure 3**) that is calculated on the health plan year which is January 1 through December 31.

ADMINISTRATION

Administration is the cost to maintain the program, including employee salaries, consulting fees, and other expenses. It is assumed in the projections that costs will grow 2.7 percent annually. SEHP administrative costs represent less than 1 percent of health plan expenditures.

PLAN RESERVES

The HCC's funding objective in managing the SEHP over the long term is to have a target reserve equal to the actuarially-calculated claims Incurred But Not Reported (IBNR), plus a reasonable contingency to account for unforeseen and unexpected growth in health costs that could arrive before plan revenue can be adjusted. The target reserve will be adjusted for health cost trend over time. **Table 1** shows the projected target reserve for each year based upon a function of Plan Contributions, Plan Expenses, and health care cost trend. The estimated target reserve for health claims in PY 2014 was \$53.1 million (**Table 1**). Target reserves are projected to rise over time based upon health cost trend.

Table 2 and **Figure 2** show SEHP balances, revenues, and expenditures from state Fiscal Year (FY) 2001 through 2013. These reserves reflect actual historical experience as reported in the Statewide Cost Allocation Plan documents for each state fiscal year and the single state financial audit reports for those years. In PY 2009, legislative action resulted in state agencies not contributing the employer contribution for seven pay periods in FY 2009, resulting in a \$64 million decrease in the fund balance. In FY 2010, legislative action reduced the fund by \$9.675 million per S.B. 572.

SUMMARY

In Plan Year 2014, healthcare costs increased less than what was originally projected. Based upon staff projections and the opinion of the SEHP actuaries, the SEHP fund should have sufficient funds to pay the health care expenses for a self-funded plan covering approximately 100,000 lives for 2015.

Table 1
Division of Healthcare Finance
Reserve Calculation
Medical, Pharmacy, Dental and Vision

Plan Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Factors and Assumptions	Actuals Projected Factors and Assumptions											
Interest Rate on Reserves	0.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Admin/Contract Fee Trend	1.1%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Kansas Healthcare cost trend rate	3.1%	5.0%	5.0%	6.0%	7.0%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Policy Choices	HCC Policy Choices in May 2012	HCC Policy Choices by May 2013	HCC Policy Choices by May 2014	Future Policy Choices								
State Employer Contr. % incr. (eff. July 1)	0.0%	-2.0%	-8.5%	11.0%	11.0%	11.0%	11.0%	9.0%	7.0%	5.0%	5.0%	5.0%
Non-State Employer % incr. (eff. July 1)	0.0%	-2.0%	0.0%	11.0%	11.0%	11.0%	11.0%	9.0%	7.0%	5.0%	5.0%	5.0%
Employee Contr. % incr. (eff. Jan 1)	0.0%	-2.0%	0.0%	11.0%	11.0%	11.0%	11.0%	9.0%	7.0%	5.0%	5.0%	5.0%
Dependent Contr. % incr. (eff. Jan 1)	0.0%	-2.0%	0.0%	11.0%	11.0%	11.0%	11.0%	9.0%	7.0%	5.0%	5.0%	5.0%
Direct Bill Contr. % incr. (eff. Jan 1)	0.0%	-2.0%	0.0%	11.0%	11.0%	11.0%	11.0%	9.0%	7.0%	5.0%	5.0%	5.0%
Plan design changes % impact on expenses	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Reserves												
Beginning reserve earning interest	12,030,660	210,418,379	214,427,655	181,294,357	129,502,327	80,853,420	50,748,837	42,701,115	56,302,145	78,697,568	96,886,933	104,059,761
Beginning reserve not earning interest	158,309,374	0	0	0	0	0	0	0	0	0	0	0
Beginning Total Reserve Balance	170,340,034	210,418,379	214,427,655	181,294,357	129,502,327	80,853,420	50,748,837	42,701,115	56,302,145	78,697,568	96,886,933	104,059,761
Projected Cash Flow												
Total Employer Contributions	358,819,472	359,465,449	343,664,848	349,727,448	388,197,467	430,899,189	478,298,100	525,878,560	567,722,390	601,593,750	631,673,437	663,257,109
Total Participant Contributions	125,591,986	125,090,707	121,538,436	127,155,258	128,924,306	141,414,163	155,137,700	167,918,243	179,230,316	188,585,107	198,397,992	208,691,549
Total Contributions	484,411,458	484,556,156	465,203,284	476,882,707	517,121,774	572,313,351	633,435,800	693,796,803	746,952,705	790,178,857	830,071,429	871,948,658
Total Plan Expenses (Claims, ASO fees & contracted expenses)	444,772,330	482,651,064	500,480,859	530,487,680	567,065,704	603,226,468	641,991,010	680,622,784	725,120,303	772,776,488	823,867,470	878,645,310
Interest on Reserves	13,216	2,104,184	2,144,277	1,812,944	1,295,023	808,534	507,488	427,011	563,021	786,976	968,869	1,040,588
Net Cash flow	39,662,344	4,009,276	(33,133,298)	(51,792,030)	(48,648,907)	(30,104,583)	(8,047,722)	13,601,030	22,356,424	18,189,364	7,172,828	(5,666,054)
Projected Reserve Balance												
Reserve Ending Balance	209,992,379	214,427,655	181,294,357	129,502,327	80,853,420	50,748,837	42,701,115	56,302,145	78,697,569	96,886,932	104,059,761	98,403,707
Target Reserve	50,623,108	53,136,639	54,586,586	57,311,977	60,433,033	64,820,638	69,531,520	74,569,691	80,020,957	85,853,050	92,115,770	98,841,144

Table 2

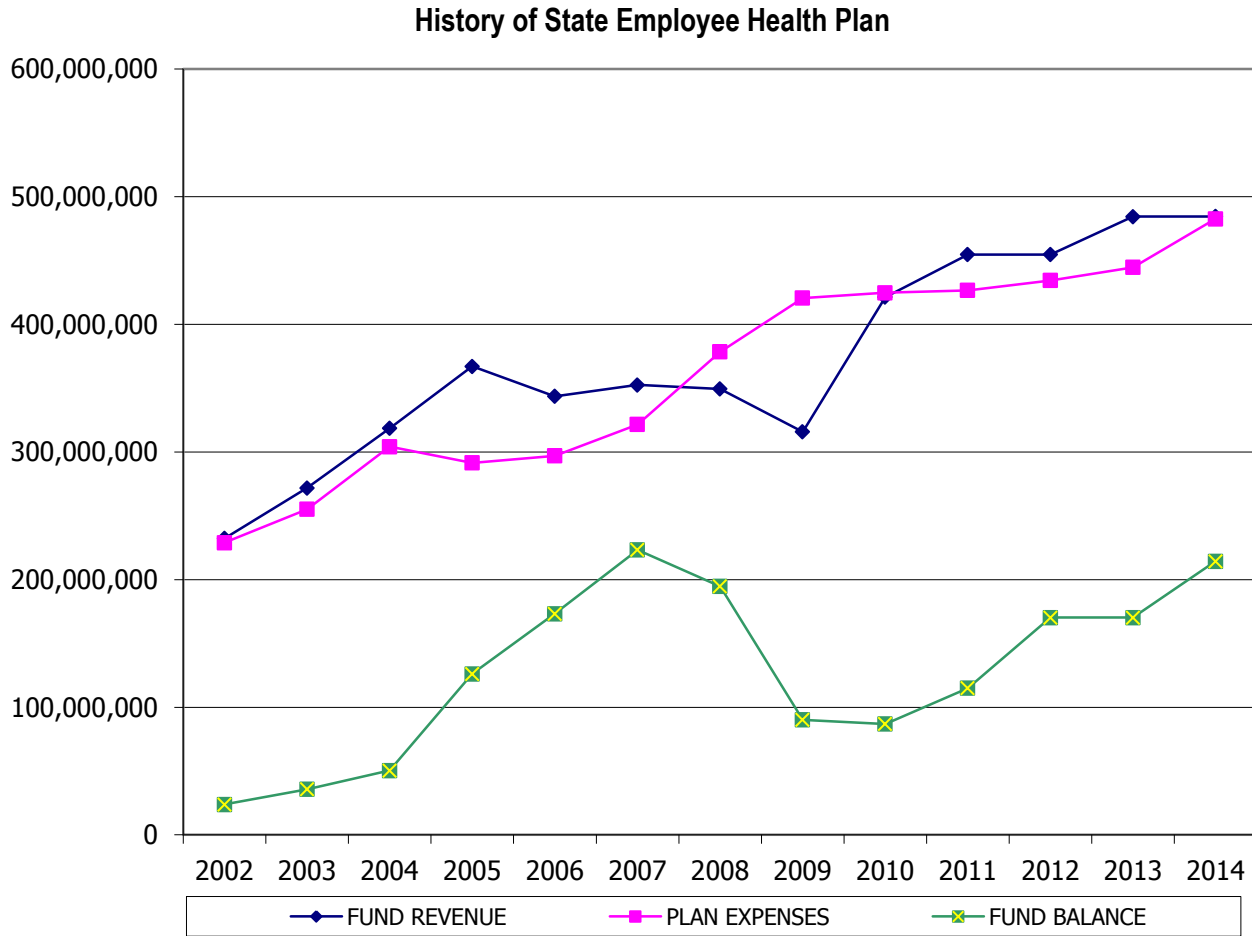
State Employees' Health Benefit Program

Statement of Operations History

Fiscal Years 2005 - 2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
BEGIN FUND BALANCES:										
Remittance to Providers	14,641,720.08	112,917,181.92	159,319,126.65	182,798,342.98	206,746,753.59	123,559,584.80	89,530,845.20	81,888,882.66	131,933,160.19	182,011,936.57
Non-State	11,205,604.15	1,561,927.10	1,941,798.34	1,325,945.14	1,222,899.42	1,083,740.12	943,959.71	798,404.79	662,352.53	1,626,614.66
Direct Bill & LWOP	14,697,472.19	1,643,367.63	1,588,837.68	1,286,107.84	1,198,590.40	1,199,601.67	1,183,591.42	0.00	0.00	0.00
Reserve Fund	9,855,594.59	10,052,400.08	10,448,121.75	10,989,553.38	11,497,865.80	11,796,537.98	11,949,079.64	12,013,613.79	12,023,143.95	12,038,205.44
Flex Spending	1,950,546.67	2,045,512.26	2,067,016.84	1,864,710.61	1,212,919.45	1,858,226.10	2,522,075.16	3,201,504.75	3,802,352.61	4,279,051.64
Cafeteria	275,447.40	420,236.96	819,005.30	1,416,663.55	2,001,101.62	2,086,949.31	3,018,954.53	4,107,863.47	5,643,695.90	6,201,863.80
Wellness	130,014.49	438,217.08	792,867.47	1,181,870.55	1,616,065.39	1,099,876.28	681,857.71	915,191.10	1,141,168.12	1,335,336.74
Other/18R Funds	1,166,281.01	555,296.86	20,977,867.16	22,188,588.23	21,715,568.41	4,763,223.45	0.00	0.00	0.00	0.00
	53,922,680.58	129,634,139.89	197,954,641.19	223,051,782.28	247,211,764.08	147,447,739.71	109,830,363.37	102,925,460.56	155,206,053.30	207,493,008.85
REVENUES:										
State ER	198,132,780.22	197,551,159.58	200,451,184.18	204,132,341.36	147,564,647.48	218,025,097.15	246,593,459.84	278,252,439.48	290,389,147.39	285,240,381.38
State EE	74,779,075.08	70,217,060.43	63,596,126.23	56,841,777.43	53,917,172.32	58,484,338.72	63,469,299.25	65,937,871.81	63,655,929.05	59,483,669.04
Non-State	43,226,460.36	45,071,853.72	45,672,732.53	45,640,777.90	55,466,928.24	65,440,727.53	73,089,821.12	86,089,715.19	85,993,486.80	85,644,215.15
Direct Bill	48,014,750.97	47,297,943.03	43,520,083.53	41,773,081.03	43,603,156.39	46,745,348.89	50,510,944.12	46,207,263.11	46,897,451.73	47,547,541.72
KSA-B-420b Reserve	196,805.49	395,721.67	541,431.63	498,312.42	308,672.18	152,541.66	64,534.15	9,530.16	15,061.49	11,778.54
Flex	12,691,092.36	12,720,816.29	13,511,389.36	14,491,861.42	15,747,895.56	16,447,256.81	17,573,602.24	17,457,336.19	15,718,084.81	13,452,131.00
Cafeteria	2,016,099.96	2,010,918.46	2,035,464.31	2,490,005.61	2,179,871.49	3,171,868.12	3,167,405.11	3,150,560.10	3,063,729.22	1,099,706.93
Wellness	577,223.64	603,096.20	645,828.02	781,432.97	686,225.79	798,133.34	788,134.57	743,461.40	725,040.58	501,354.35
Other	2,306,919.27	3,906,469.87	3,138,468.00		1,572.37	68,137.91	-8,711,181.42	197,188.14	254,835.16	804,985.18
	381,941,207.35	380,675,039.25	373,112,707.79	366,649,690.14	319,476,141.82	409,833,450.13	446,546,018.98	498,145,365.58	506,712,766.23	493,885,763.29
EXPENSES:										
Claims	291,260,895.74	296,272,542.20	191,517,575.74	225,416,734.16	360,215,039.15	377,935,935.20	382,304,517.05	380,813,434.04	391,326,172.94	404,826,731.66
Other	239,621.24	238,450.00	334,685.81	2,101,171.33	7,105,819.56	5,112,843.00	5,327,669.53	5,424,145.21	5,176,041.27	5,063,766.12
ASO/Premiums			140,752,313.72	97,575,850.57	33,520,301.02	44,660,104.56	46,295,027.21	40,638,493.21	40,738,725.97	41,698,503.93
Flex	12,001,962.67	12,028,299.69	12,781,080.66	13,704,255.73	14,893,029.57	16,029,601.12	16,618,731.19	16,509,479.45	14,864,870.98	12,718,411.89
Reserve										
Admin	2,727,268.39	2,533,384.43	2,629,910.77	3,691,696.55	3,505,976.89	3,712,342.59	2,904,976.81	2,479,220.93	2,319,999.52	2,854,257.98
	306,229,748.04	311,527,676.32	348,015,566.70	342,489,708.34	419,240,166.19	447,450,826.47	453,450,921.79	445,864,772.84	454,425,810.68	467,161,671.58
END FUND BALANCES:										
Remittance to Providers	112,917,181.92	159,319,126.65	182,798,342.98	206,746,753.59	123,559,584.80	89,530,845.20	81,888,882.66	131,933,160.19	182,011,936.57	209,364,315.17
Non-State	1,561,927.10	1,941,798.34	1,325,945.14	1,232,899.42	1,083,740.12	943,959.71	798,404.79	662,352.53	1,626,614.66	1,506,026.82
Direct Bill & LWOP	1,643,367.63	1,588,837.68	1,286,107.84	1,198,590.40	1,199,601.67	1,183,591.42	0.00	0.00	0.00	0.00
Reserve Fund	10,052,400.08	10,448,121.75	10,989,553.38	11,487,865.80	11,796,537.98	11,949,079.64	12,013,613.79	12,023,143.95	12,038,205.44	12,049,983.98
Flex Spending	2,045,512.26	2,067,016.84	1,864,710.61	1,212,919.45	1,858,226.10	2,522,075.16	3,201,504.75	3,802,352.61	4,279,051.64	4,662,857.54
Cafeteria	420,236.96	819,005.30	1,416,663.55	2,001,101.62	2,086,949.31	3,018,954.53	4,107,863.47	5,643,695.90	6,201,863.80	5,519,715.80
Wellness	438,217.08	792,867.47	1,181,870.55	1,616,065.39	1,099,876.28	681,857.71	915,191.10	1,141,168.12	1,335,336.74	1,114,201.25
Other/18R Funds	555,296.86	21,804,728.79	22,188,588.23	21,715,568.41	4,763,223.45	0.00	0.00	0.00	0.00	0.00
	129,634,139.89	198,711,502.82	223,051,782.28	247,211,764.08	147,447,739.71	109,830,363.37	102,925,460.56	155,206,053.30	207,493,008.85	224,217,100.56

Figure 2



Notes:

1. Legislative action resulted in state agencies not contributing the employer contribution for seven pay periods in FY 2009, resulting in a \$64 million decrease in the fund balance.
2. In FY 2010, legislative action reduced the fund by \$9.675 million per S.B. 572.

Figure 3
Projected Reserve Balance
Annual Contributions, Expenses and Fund Balances

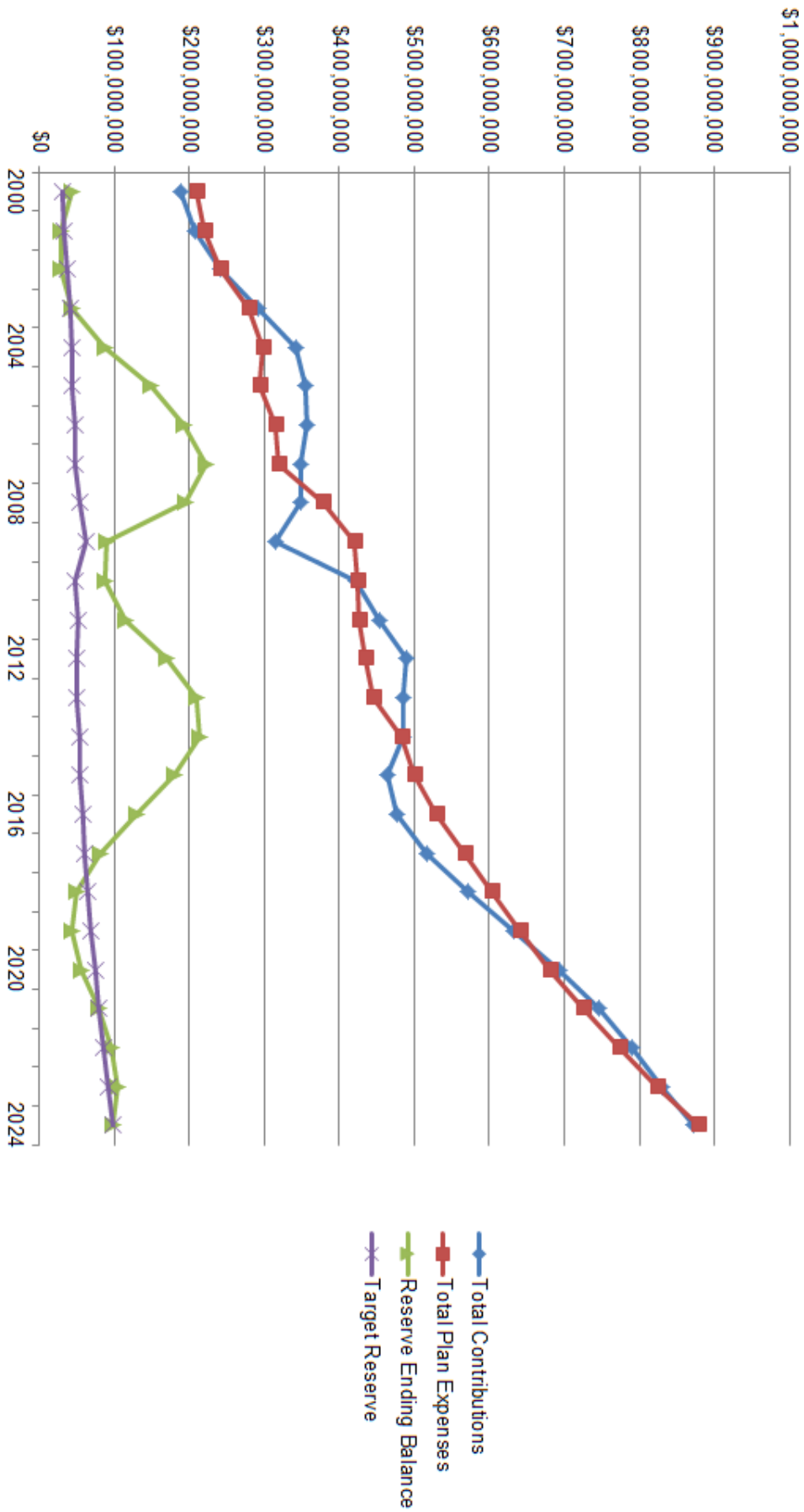


Exhibit A
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Exhibit B
2014 State Employee Health Plan
Enrollment by Group & By Participant Type

Grand Total Covered Lives (State & Non-State Active, Direct Bill, & COBRA)				
Type of Participant	Jan-14	Apr-14	Jul-14	Oct-14
Active State Employees	34,634	34,614	34,174	33,705
Active State Employee (EE) Dependents	37,527	37,690	37,514	37,159
Total Covered Lives	72,161	72,304	71,688	70,864
Direct Bill State Retirees	11,022	10,921	10,932	10,960
Direct Bill State Retiree Dependents	481	434	434	446
Total Covered Lives	11,503	11,355	11,366	11,406
COBRA State Participants	111	63	71	103
COBRA State Dependents	79	43	63	146
Total Covered Lives	190	106	134	249
Active Educational Employees	2,889	2,861	2,801	2,664
Active Educational EE Dependents	3,175	2,964	2,944	2,921
Total Covered Lives	6,064	5,825	5,745	5,585
Direct Bill Educational Retirees	398	396	395	411
Direct Bill Educational Retiree Dependents	47	41	40	43
Total Covered Lives	445	437	435	454
COBRA Educational Participants	12	6	7	13
COBRA Educational Dependents	6	2	2	5
Total Covered Lives	18	8	9	18
Active City/County/Township Employees	2,794	2,771	2,803	2,811
Active City/County/Township EE Dependents	3,932	3,646	3,691	3,744
Total Covered Lives	6,726	6,417	6,494	6,555
Direct Bill City/County/Township Retirees	123	120	127	130
Direct Bill City/County/Township Retiree Dependents	13	13	15	12
Total Covered Lives	136	133	142	142
COBRA City/County/Township Participants	12	11	10	9
COBRA City/County/Township Dependents	4	2	6	5
Total Covered Lives	16	13	16	14

Type of Participant	Jan-14	Apr-14	Jul-14	Oct-14
Active Hospital or Mental Health Center Employees	1,123	1,111	1,124	1,139
Active Hospital or Mental Health Center EE Dependents	1,218	1,119	1,111	1,140
Total Covered Lives	2,341	2,230	2,235	2,279
Direct Bill Hospital or Mental Health Center Retirees	15	12	13	12
Direct Bill Hospital or Mental Health Center Ret Deps	3	1	1	1
Total Covered Lives	18	13	14	13
COBRA Hospital or Mental Health Center Participants	7	6	4	7
COBRA Hospital or Mental Health Center Dependents		2	2	8
Total Covered Lives	7	8	6	15
Active All Other Non State Employees	188	199	198	198
Active All Other Non State EE Dependents	195	209	210	214
Total Covered Lives	383	408	408	412
Direct Bill All Other Non State Retirees	10	17	17	19
Direct Bill All Other Non State Ret Deps	1	1	1	1
Total Covered Lives	11	18	18	20
COBRA All Other Non State Participants	3	1	1	1
COBRA All Other Non State Dependents	8	3	3	3
Total Covered Lives	11	4	4	4
Total Contracts	53,341	53,109	52,677	52,182
Total Covered Lives	100,030	99,279	98,714	98,030

Reflects dependents on medical coverage

Exhibit C
2014 Non State Entities Enrollment

Effective Date	Group Name	Type
7/1/2014	City of Clifton	City
8/1/2014	City of Sublette	City
7/1/2014	Gove County	County
3/1/2014	Wilmington Township	Township
4/1/2014	Mulvane Public Library	Library
1/1/2014	Newton Housing Authority	Local Govt. Entity
1/1/2014	Wellington Housing Authority	Local Govt. Entity
10/1/2014	Phillipsburg Housing Authority	Local Govt. Entity
1/1/2014	Valley Center Recreation Center	Local Govt. Entity
3/1/2014	Kansas Municipal Energy Agency	Local Govt. Entity
12/1/2014	Sublette Recreation Commission	Local Govt. Entity

Exhibit D
Kansas State Employees Health Care Commission
Plan Year 2014 Estimated Annualized Costs (Unaudited)

	<u>Estimate</u> <u>2014 Costs</u>
<u>Annualized</u>	
1. 2014 Projected Total Cost¹	\$ 482,651,064
2. 2014 Estimated Total Cost²	
a. Blue Cross Blue Shield of Kansas (BCBS)	\$ 312,631,000
b. Coventry Healthcare of Kansas	\$ 14,860,000
c. First Health Medicare Part D	\$ 1,654,000
d. UnitedHealthcare (UHC)	\$ 7,512,000
e. BCBS Kansas Senior Plan C	\$ 18,856,000
f. Coventry Advantra PPO	\$ 1,530,000
g. Delta Dental of Kansas	\$ 28,906,000
h. Caremark Rx Claims	\$ 81,521,000
i. Superior Vision Premiums	\$ 5,556,000
j. Federal Fees	\$ 3,032,000
k. Contract Fees	\$ 6,196,000
TOTAL	\$ 482,254,000
3. 2014 State and Non State Employee, COBRA, Direct Bill Contributions²	\$ 118,500,000
4. 2014 State of Kansas and Non State Employer Contributions^{1,2}	
a. Projected	\$ 359,465,449
b. Actual	\$ 347,197,029
c. Percent Difference	3.53%

¹ 2014 Projected Totals come from the 10-year projection sheet presented and approved at the June 10, 2014, Health Care Commission Meeting.

² These values were developed by annualizing data received through November 2014. Intra-year trend, deductible leveraging, and migration were not considered. Data has not been audited further.